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University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6



MOXIE PETROLEUM LTD.

1997
First Annual Report



MOXIE PETROLEUM LTD.

Corporate Profile

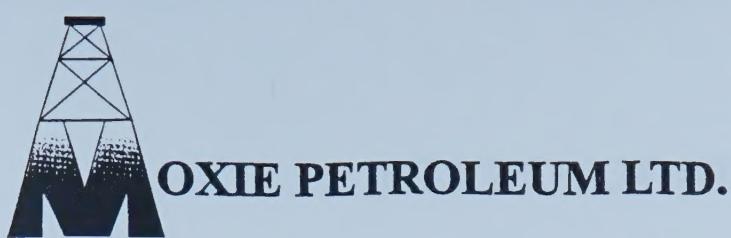
Moxie Petroleum Ltd. is a Calgary based oil and gas company focused on exploring for natural gas in southern Alberta. Moxie closed its initial public offering on December 19, 1997 raising \$6,439,000. The common shares were listed on the Alberta Stock Exchange on December 31, 1997 under the trading symbol "MOX".

Annual Meeting

The Annual General Meeting will be held in the Rideau Room of the Westin Hotel, Fourth Avenue and Third Street S.W., Calgary, Alberta on Thursday, June 25, 1998 at 3:00 p.m.. Shareholders are encouraged to attend and those unable to do so should complete the form of proxy and forward it at their earliest convenience.

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Highlights

December 31
1997

Financial (\$)

Working capital	3,137,287
Subscriptions due June 1, 1998	2,581,215
Capital expenditures	488,614

Share Capital

Common shares	3,753,650
- outstanding	
Pre-paid flow-through warrants	3,407,055
- outstanding	
- reserved for issue	2,581,215

Land Holdings

Gross acres	3,000
Net acres	2,178



MOXIE PETROLEUM LTD.

Message to Our Shareholders

We are delighted to welcome all of you as new shareholders of Moxie. In early October 1997, shortly after we filed our preliminary prospectus, the selling price for crude oil was US\$23 per barrel, equity markets were strong and The Toronto Stock Exchange Oil and Gas Index had reached an all-time high.

By late November, investors' perception of resource stocks had shifted dramatically. The price of crude oil and the Producers Index were both off 20%. Compounding the situation were predictions of a warm winter.

In this difficult environment, our initial public offering raised \$6,439,000 from approximately 375 investors, closing on December 19, 1997. We thank you for your support and confidence by participating in our initial public offering.

On December 31, 1997 our common shares were listed on the Alberta Stock Exchange under the trading symbol "MOX". A number of shareholders experienced difficulties in receiving their shares. The problem was caused by a shortage of working days between the closing and the listing of our shares. We apologize for any inconvenience that you may have encountered.

Operationally, we committed the majority of the \$300,000 of seed capital invested by the founders in August to build a number of exploration prospects. By year end we had purchased land on five high working interest prospects, shot a 3-D seismic program and participated in the shooting of a 2-D seismic program. Trade seismic data was acquired on two additional prospects. On December 29, 1997 we spudded our first of five wells drilled to date. This drilling has resulted in one oil well and three potential gas wells.

Our strategy is to build through exploration supplemented by acquisitions, provided the cost of acquiring is competitive, strategic or provides additional upside potential. We are concentrating our efforts on gas prospects in southern Alberta where we have considerable technical expertise. The majority of our budget is allocated to low and medium risk prospects, with the balance earmarked for higher risk prospects with significant upside. We internally generate and operate virtually all of our prospects at high working interest.

The timing of a price recovery in crude oil remains uncertain. A prolonged period of weak crude oil prices may reduce activity levels and capital budgets creating opportunities for well-financed companies such as ours. We have established an initial capital budget of \$5,400,000 for 1998 and anticipate drilling up to 15 wells. We are looking forward with enthusiasm to the balance of the year.

On behalf of our Management and the Board,

Thomas Love
President

March 31, 1998
Calgary, Alberta



MOXIE PETROLEUM LTD.

Management's Report to the Shareholders

The financial statements of the Company were prepared by management in accordance with accounting principles generally accepted in Canada. The financial and operating information presented in this report is consistent with that shown in the financial statements.

Management maintains a system of internal controls designed to safeguard assets from loss or unauthorized use and to facilitate the preparation of relevant, reliable and timely financial information.

External auditors appointed by the shareholders have examined the financial statements for the period ended December 31, 1997. The Audit Committee, the majority of which consists of non-management directors, has reviewed these financial statements with management and the auditors and has reported to the Board of Directors. The Board has approved the financial statements.

Thomas Love
President

Calgary, Alberta
March 16, 1998

Auditors' Report

To the Shareholders of Moxie Petroleum Ltd.

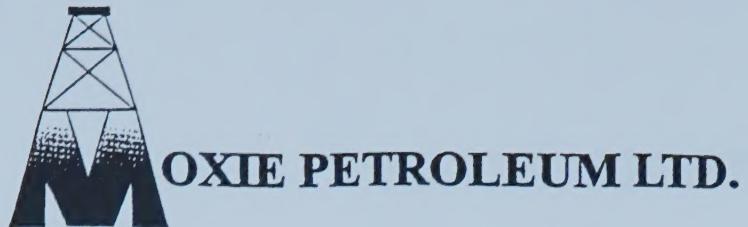
We have audited the balance sheet of Moxie Petroleum Ltd. as at December 31, 1997 and the statement of changes in financial position for the period from incorporation on February 27, 1997 to December 31, 1997. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the period from incorporation on February 27, 1997 to December 31, 1997 in accordance with generally accepted accounting principles.

Calgary, Canada
March 16, 1998

Chartered Accountants



Financial Statements

Balance Sheet

As at December 31, 1997

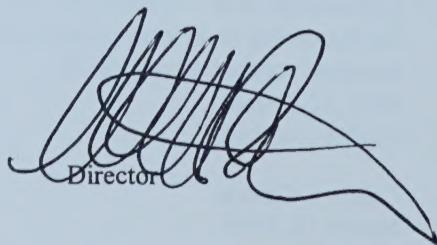
	\$
ASSETS	
Current	
Cash and short-term deposits	3,389,335
Accounts receivable	53,038
Prepays	17,673
	<u>3,460,046</u>
Capital assets [note 2]	439,743
Deferred income taxes [note 3]	237,327
	<u>4,137,116</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY	
Current	
Accounts payable	322,759
Shareholders' equity	
Share capital [note 3]	3,814,357
	<u>4,137,116</u>

See accompanying notes

On behalf of the Board:



Director



Director



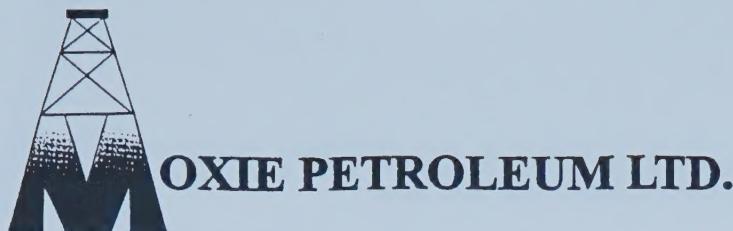
MOXIE PETROLEUM LTD.

Statement of Changes in Financial Position

(For the period from incorporation
to December 31, 1997)

	\$
Investing activities	
Acquisition of capital assets	(488,614)
Changes in non-cash working capital	252,048
	<u>(236,566)</u>
Financing activities	
Issue of common shares	750,730
Issue of pre-paid flow-through warrants	3,407,055
Deferred taxes	(237,327)
Share issue costs, net of deferred taxes	<u>(294,557)</u>
	<u>3,625,901</u>
Cash and short-term deposits, end of period	3,389,335

See accompanying notes



Notes to Financial Statements

As at December 31, 1997

The Company was incorporated under the laws of the Province of Alberta by Articles of Incorporation dated February 27, 1997 with nominal share capital as 792100 Alberta Ltd. On July 25, 1997 Articles of Amendment were filed to change the Company's name to Moxie Petroleum Ltd. The Company is engaged in the exploration for and development of petroleum and natural gas properties. All activity is conducted in the Province of Alberta.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with generally accepted accounting principles in Canada. Among the more significant of these principles are the following:

Capital assets

Deferred exploration costs

The Company's activities during the period from the date of incorporation to December 31, 1997 are related to the exploration for and development of petroleum and natural gas. The Company is in the pre-production stage. Accordingly, all costs net of revenues, have been deferred and the financial statements do not include statements of earnings or retained earnings. The ultimate recovery of the Company's investment is dependent upon the discovery of petroleum and natural gas reserves in commercial quantities. All deferred costs will be transferred to the Company's full cost pool when production at commercial levels is attained. They will then be depleted as part of the cost of petroleum and natural gas properties.

Capitalized costs

Once commercial production is achieved, the Company will follow the full cost method of accounting whereby all costs related to the exploration for and development of oil and gas reserves are initially capitalized. Such costs will include land acquisition costs, geological and geophysical expenditures, costs of drilling both productive and non-productive wells, equipment costs and that portion of administrative expenses applicable to these activities.

Proceeds from disposal of properties will normally be applied as a reduction of the cost of the remaining assets unless the disposal results in a change in the depletion rate by more than 20 percent in which case a gain or loss on disposal will be recorded.

Depreciation and depletion

Depletion of petroleum and natural gas properties and depreciation of production equipment will be provided using the unit-of-production method based on estimated proven reserves of petroleum and natural gas before royalties, as determined by independent engineers.



MOXIE PETROLEUM LTD.

The depletion and depreciation cost base will include total capitalized costs, less costs of unproved properties, plus provision for future development costs of proved undeveloped reserves, as determined by independent engineers.

The relative volumes of oil and gas reserves and production will be converted at a ratio of ten thousand cubic feet of gas to one barrel of oil.

Furniture and equipment is carried at cost and will be depreciated over the estimated useful lives of the assets at rates of 20% to 30% calculated on a declining balance basis once commercial production is achieved.

Site restoration

Once commercial production is achieved, the Company will make a provision for future site restoration and abandonment costs, based on the unit-of-production method. The provision will be included in depletion, in the statement of earnings.

Ceiling test

The Company will apply an annual ceiling test to capitalized costs, net of deferred income taxes and the site restoration provision, to ensure that the net carrying value does not exceed the estimated value of future net revenues from production of proved reserves, less future production-related general and administrative expenses, financing costs, estimated future site restoration and abandonment costs and income taxes. Any reduction in value, as a result of the ceiling test, will be charged to operations.

The calculation of future net revenues will be based on sales prices and costs, and the income tax and Alberta royalty tax credit legislation in effect at the year end.

Joint interests

Substantially all of the Company's exploration and development activities are conducted jointly with others, and accordingly the financial statements reflect only the Company's proportionate interest in such activities.

Financial instruments

Financial instruments of the Corporation consist of cash and short term deposits, accounts receivable and accounts payable. As at December 31, 1997 there are no significant differences between their carrying values and their estimated market values.

Pre-paid flow-through warrants

The Company will finance its initial exploration and development activities through the issue of Pre-paid Flow-through Warrants. Under the terms of the offering, the tax attributes of the related expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Company, the carrying value of the properties acquired and the warrants issued are recorded net of the tax benefits renounced to subscribers when the expenditures are incurred.



MOXIE PETROLEUM LTD.

Notes to Financial Statements

As at December 31, 1997

2. CAPITAL ASSETS

	1997 \$
Deferred exploration and development costs	
Petroleum and natural gas properties	431,580
Tax benefits renounced	(48,871)
General and administrative expenses	30,307
	<u>413,016</u>
Furniture and equipment	26,727
	<u>439,743</u>

3. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of Common and an unlimited number of Preferred shares.

Issued and outstanding

	Number	\$
Common shares		
Subsequent to incorporation	1,500,000	300,000
Pursuant to initial public offering	2,253,650	450,730
Share issue costs, net of deferred taxes	—	(294,557)
	<u>3,753,650</u>	<u>456,173</u>
Pre-paid flow-through warrants		
Pursuant to initial public offering	3,407,055	3,407,055
Less tax benefits relating to qualifying expenditures renounced to subscribers	—	(48,871)
	<u>3,407,055</u>	<u>3,358,184</u>
		<u>3,814,357</u>



MOXIE PETROLEUM LTD.

On December 19, 1997, the Company completed its initial public offering, resulting in the issue of 6,439 units at a price of \$1,000 per unit. Each unit consisted of 350 Common shares and 930 Prepaid Flow-through Warrants with a stated value of \$70 and \$930 respectively. Subscribers were given the option of paying for their units at closing or on an instalment basis with the final instalment due on June 1, 1998. A total of 2,253,650 Common shares and 3,407,055 Pre-paid Flow-through Warrants were issued for cash and 2,581,215 Prepaid Flow-through Warrants were reserved for issue pursuant to the instalment agreement.

In accordance with the terms of the offering, and pursuant to certain provisions of the Income Tax Act, the Company intends to renounce, for income tax purposes, to the holders of the Pre-paid Flow-through Warrants, \$5,988,270 of exploration and development expenditures effective as of December 31, 1998. At December 31, 1997, the Company renounced \$109,822 of exploration and development expenditures. To recognize the foregone tax benefits to the Company, the carrying value of the properties and equipment acquired and the Prepaid Flow-through Warrants issued have been reduced by \$48,871.

The Company, may at its option, force the exercise of the Pre-paid Flow-through Warrants into Common shares at any time after October 1, 1999 and before October 1, 2002. The number of Common shares obtained upon exercise of each Pre-paid Flow-through Warrant will be equal to \$1.00 divided by the greater of \$1.00 and the then current market price of the Common shares. Any Pre-paid Flow-through Warrants which have not been exercised into Common shares by December 31, 2002 will be deemed to be exercised into Common shares effective December 31, 2002.

Stock option plan

The Company has granted options to employees, directors and key consultants for the purchase of 310,000 Common shares at \$0.75 per share. The stock options are exercisable over a five-year period ending December 18, 2002 and vest as to one-third on each of the first, second and third anniversaries of the date of the grant.

Share issue costs

Share issue costs at December 31, 1997 of \$531,884 are presented net of deferred taxes of \$237,327.



MOXIE PETROLEUM LTD.

Corporate Information

Board of Directors

Steve Dabner
Vice President, Exploration
Moxie Petroleum Ltd.
Chestermere, Alberta

John Gareau
Independent Businessman
Calgary, Alberta

Thomas Love
President
Moxie Petroleum Ltd.
Calgary, Alberta

Randy Pawliw
Independent Businessman
Priddis, Alberta

Solicitors

Bennett Jones Verchere
Calgary, Alberta

Registrar & Transfer Agent

The Trust Company of Bank of Montreal
Calgary, Alberta

Officers

Thomas Love
President
Steve Dabner
Vice President, Exploration

William Rice
Secretary

Executive Offices

811 - 3rd Street S.W.
Calgary, Alberta T2P 4L5
Telephone (403) 269-9163
Facsimile (403) 269-4179

Bankers

Canadian Imperial Bank of Commerce
Calgary, Alberta

Auditors

Ernst & Young
Calgary, Alberta

Stock Exchange Listing

Alberta Stock Exchange
Trading Symbol "MOX"